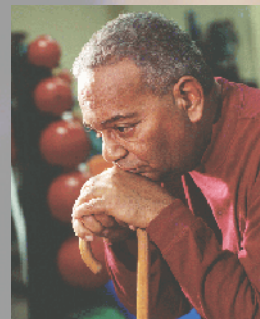


# SPECIAL REPORT

A JOINT SPECIAL REPORT  
BY THE  
SENATE DPC  
AND THE  
HOUSE DPC

SACRIFICING THE HEALTH  
SECURITY OF AMERICA'S SENIORS:



THE MEDICARE TRUST FUND FINANCES  
THE PRESIDENT'S BLOATED TAX CUT

MARCH 14, 2001

**SACRIFICING THE HEALTH SECURITY OF AMERICA'S SENIORS:  
THE MEDICARE TRUST FUND FINANCES THE PRESIDENT'S BLOATED TAX CUT  
Democrats Fight for Reasonable Tax Relief, to Protect Medicare, and Provide a Meaningful  
Medicare Prescription Drug Benefit  
March 14, 2001**

Yesterday, the Bush budget failed its first test when a bipartisan majority of Senators voted to take the Medicare Trust Fund completely off-budget, attempting to ensure that Medicare funds are used only to pay for Medicare benefits -- and not some other purpose. With this vote, the Senate indicates its opposition to President Bush's budget framework. The President's budget uses virtually the entire non-Medicare, non-Social Security Trust Fund surplus to support the President's ill-advised, \$2 trillion-plus tax cut and therefore leaves only the Trust Fund surpluses to pay for needed investments in prescription drugs, defense, education, and other priorities. The immense magnitude of the President's tax cut also crowds out the resources necessary to provide a meaningful prescription drug benefit for seniors and people with disabilities.

Democrats believe that all Americans -- particularly working families -- deserve significant tax relief. However, the tax cut must be part of an honest budget framework that pays down the federal debt without threatening Social Security and Medicare or shortchanging investments in key priorities. The Democrats' budget framework demonstrates that it is possible to provide responsible, broad-based tax relief, buy down the debt, protect the Medicare Trust Fund, and provide a comprehensive Medicare prescription drug benefit option for all 39 million beneficiaries.

**THE BUSH ADMINISTRATION HAS TO SPEND THE MEDICARE SURPLUS IN ORDER TO PAY FOR ITS TAX CUT.** The President's budget outline acknowledges that his tax plan costs over \$2 trillion. When the President's plan is adjusted for changes Republicans have already made or are likely to make, estimates from the Senate and House Minority Budget Committees, based on analysis by the Joint Committee on Taxation, indicate the Bush tax cut would cost as much as \$2.6 trillion, virtually the entire non-Medicare, non-Social Security Trust Fund surplus. Any spending increases the President proposes can only be funded by raiding the Trust Funds.

- **President Bush's Tax Cut Forces Him to Use the Medicare Surplus to Fund Other Priorities.** Because the Bush tax cut uses up virtually the entire non-Medicare, non-Social Security surplus, he is forced to use the Medicare surplus to support his other spending initiatives. The Bush budget includes the Medicare surplus in the \$842 billion "contingency fund" that is being used to pay for multiple high priority initiatives, including defense spending, Social Security reform, Medicare reform, education spending, investments in agriculture, debt reduction, and AMT reform.

- **The Bush Budget Will Inevitably Spend The Entire “Contingency Fund”– And Thus The Entire Medicare Surplus.** The Senate and House Minority Budget Committees estimate that the true cost of the President’s proposed tax cut (with AMT reform and interest costs) is at least \$2.5 trillion over 10 years -- the approximate amount of the non-Social Security, non-Medicare surplus. Any increase in spending proposed by the President (such as defense spending, Social Security reform, Medicare reform, education spending, investments in agriculture, or debt reduction) combined with this tax cut would quickly deplete the remaining contingency fund and would then tap into the Social Security and Medicare Trust Fund surpluses.
- **Secretary Thompson and OMB Director Daniels Admit The Bush Administration Jeopardizes the Medicare Trust Fund Surplus.** In recent testimony before the Senate and House Budget Committees, Secretary Thompson and OMB Director Daniels admitted that the Bush Administration’s budget fails to protect the Medicare Trust Fund. They conceded that the Bush Administration places the funds in the \$842 billion “contingency fund”, which is used to pay for other spending priorities.

**HAVING IT BOTH WAYS – ARGUING THAT MEDICARE IS IN DEFICIT WHILE SPENDING THE TRUST FUND SURPLUS.** The Bush Administration argues that if you combine the Part A and Part B programs, there is no real Medicare surplus -- even while their own budget tables project a \$526 billion surplus over 10 years. This argument is deliberately misleading, and wrongly assumes that the only funding sources for the Medicare program are Part A payroll taxes and Part B premiums. It ignores the statutory requirement under the Social Security Act to use general revenue funds to finance Part B program expenses not covered by beneficiary premium contributions. Based on this logic, any government program paid for with general funds is in deficit – including defense.

**DEPLETING THE MEDICARE TRUST FUND HASTENS TRUST FUND INSOLVENCY BY 15 YEARS.** With the retirement of the baby-boom generation, enrollment in Medicare will double by 2025. Rather than protecting the Trust Fund in the face of this upcoming demographic challenge, President Bush uses it to pay for his excessive tax cut and other spending. The President's budget would divert \$526 billion over the next 10 years from the Medicare Trust Fund to pay for other items in the budget. An analysis conducted by the independent HCFA Actuary and another by Families USA demonstrates that this diversion of funds would hasten that Trust Fund's insolvency by about 15 years.

**THE BUSH BUDGET FAILS ITS FIRST TEST: A BIPARTISAN MAJORITY OF THE SENATE VOTED TO PROTECT THE MEDICARE TRUST FUND.** Yesterday, the Senate voted 53 to 47 to protect the Medicare Trust Fund from being raided to pay for other programs or tax breaks by taking the Medicare Hospital Insurance Trust Fund completely off-budget. This amendment, which would have ensured that neither Social Security nor Medicare surpluses could be used for any other purposes, was rejected because of partisan politics. Today, the Democratic leadership calls on President Bush and the Republican leadership to respect the will of a bipartisan majority in the Senate and revise his budget to protect the Medicare Trust Fund surplus, ensuring that the payroll taxes workers pay today are used to help ensure that Medicare

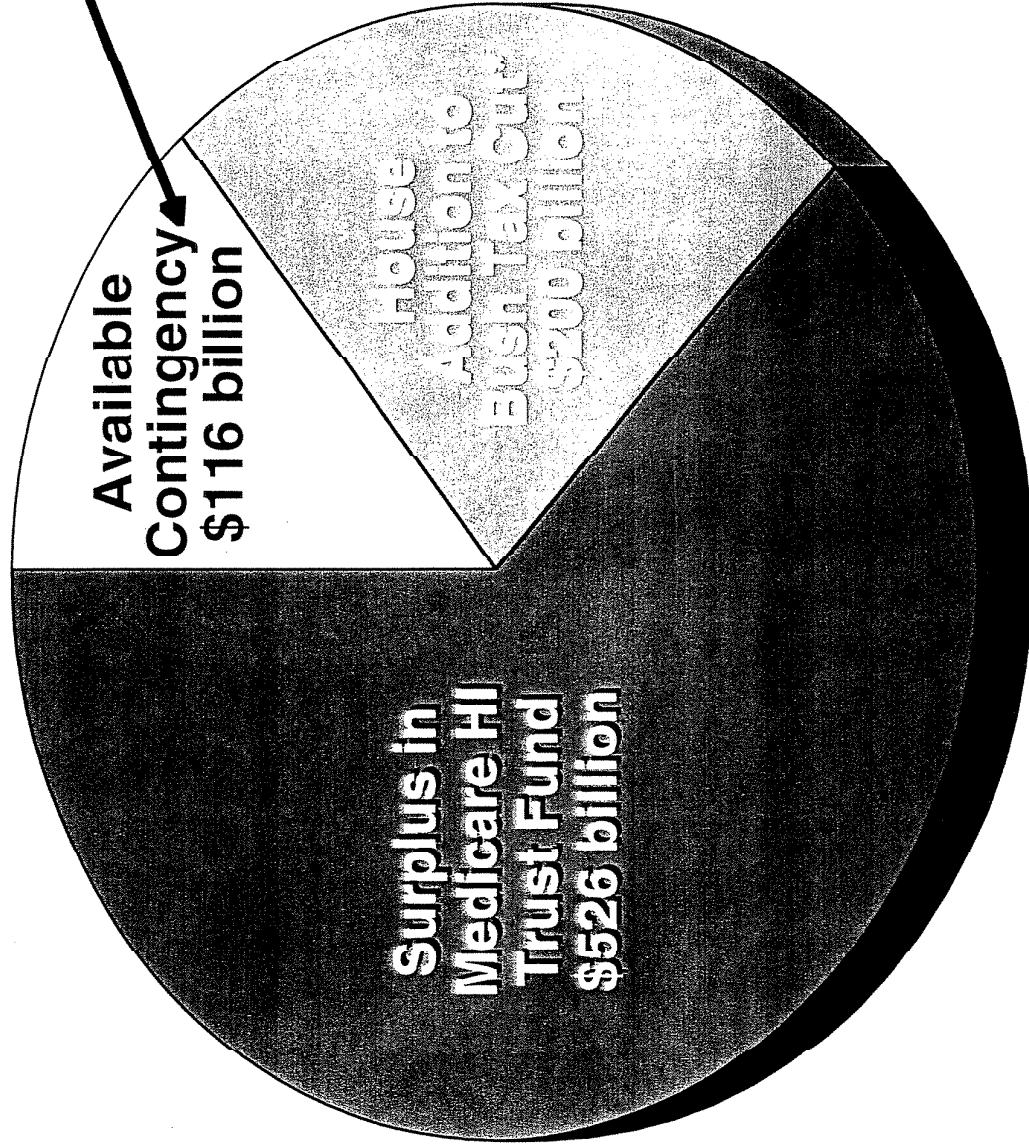
can pay benefits tomorrow.

**THE BUSH ADMINISTRATION BUDGET FAILS TO PROVIDE A MEANINGFUL PRESCRIPTION DRUG BENEFIT.** The Administration's budget includes only \$153 billion over 10 years to provide a four year, low-income prescription drug benefit (Immediate Helping Hand) and finance overall Medicare reform. Although even senior Republicans agree that the President's investment in this benefit is underfunded, the President's \$1.6 trillion tax cut makes it impossible to provide any additional investment.

- **The Current Investment in the Bush Administration Budget Cannot Even Fund the Immediate Helping Hand Proposal for 10 years -- Much Less a Real Medicare Drug Benefit.** The President's budget provides \$153 billion over 10 years for a prescription drug benefit and Medicare reform. However, the cost of covering only the low-income population over 10 years – using the Administration's own cost estimates (adjusted by CBO's projected rate of drug inflation) -- would cost over \$200 billion.
- **The Immediate Helping Hand Is a False Promise for Seniors.** The Bush Administration's low-income drug benefit will deny eligibility to about 20 million Medicare beneficiaries – most of whom lack affordable, dependable prescription drug coverage today. Under the President's proposal, an 85 year old widow with an annual income of \$17,000 would receive no assistance with her prescription drug costs for at least four years. Due to notoriously low enrollment in state programs, the plans would inevitably assist less than half of eligible low-income seniors.
- **Using President Bush's Investment in Prescription Drugs to Provide a Medicare Prescription Drug Benefit Would Provide Beneficiaries with a Benefit Worth about \$200 per Year.** If Congress rejects the Immediate Helping Hand proposal and tries to provide a Medicare drug benefit using the amount allocated by the Bush Administration's budget, the \$153 billion he has allocated would provide a benefit worth approximately \$200 per beneficiary per year.
- **The Bush Administration Drug Benefit Is Underfunded Even Compared to Other Republican Proposals.** Current estimates indicate that even an inadequate, poorly designed, and unworkable drug benefit such as the one proposed by the House Republicans last year – one which even the HMOs and private insurance industry says won't work – will cost \$213 billion over 10 years.
- **Even Senate Republicans Believe that the Bush Administration's Investment in Prescription Drugs is Too Small.** In a recent hearing held by the Senate Budget Committee, Senator Grassley stated that providing \$153 billion in a prescription drug benefit "is a starting point" rather than a true investment in prescription drugs. In response, Secretary Thompson was unable to defend the Administration's investment, instead admitting that \$153 billion may not be the right amount.

**DEMOCRATS HAVE A MEANINGFUL PRESCRIPTION DRUG BENEFIT PLAN -- AND A REAL TAX CUT FOR WORKING FAMILIES.** The Democrats' budget framework provides responsible, broad-based tax relief, buys down the debt, protects Medicare, and provides a comprehensive Medicare prescription drug benefit option for all 39 million beneficiaries. This new benefit would provide: a voluntary Medicare prescription drug benefit option for all beneficiaries with an affordable premium and a comprehensive benefit; a benefit administered through the private sector, providing buying power and lower prices for Medicare beneficiaries; and a benefit that ensures access to the drugs seniors and people with disabilities need at the pharmacies they trust.

# PRESIDENT'S \$842 BILLION "CONTINGENCY" FUND

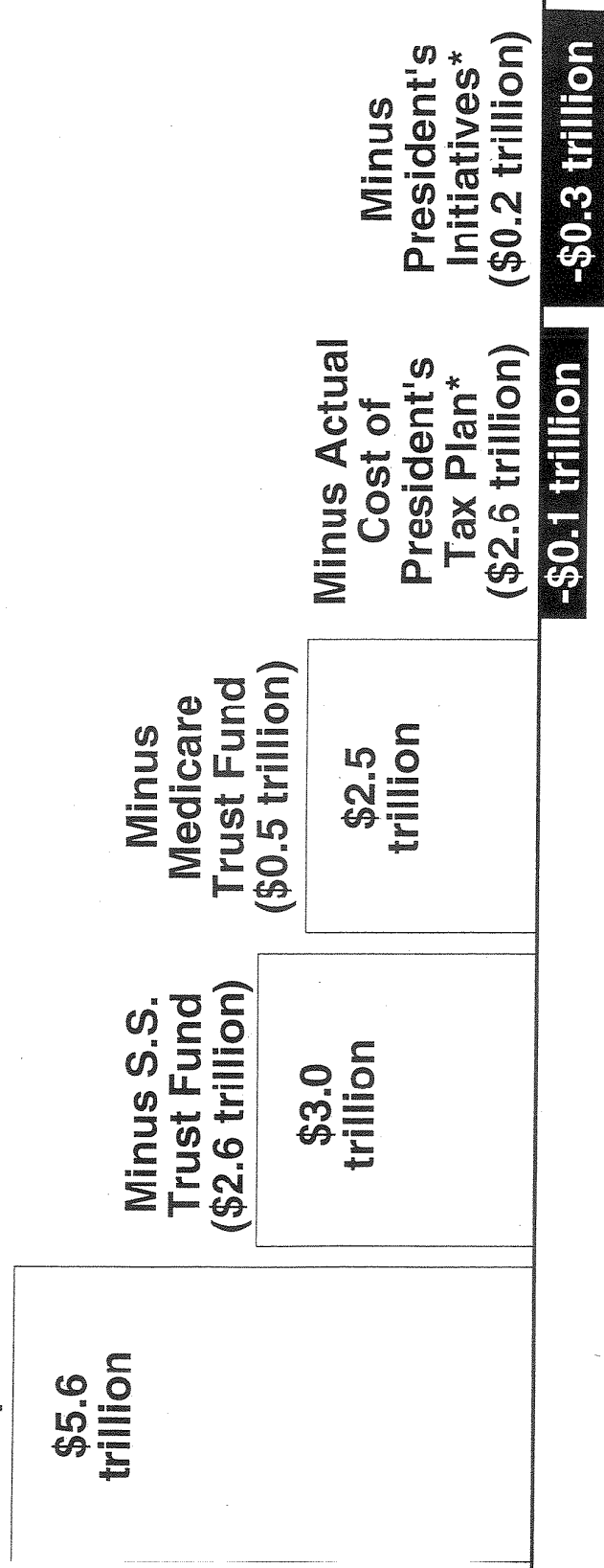


Real Rx Plan  
Medicare Reform  
Health Care Coverage  
SS Reform  
AMT Reform  
Tax Extenders  
Defense  
Education  
Debt Reduction  
Agriculture  
Rainy Day Fund

\* Additional cost with interest of House-passed rate reduction bill above President's plan.  
Source: Democratic Policy Committee, based on the President's FY 2002 budget blueprint.

# PRESIDENT'S BUDGET RAIDS SS & MEDICARE SURPLUS

OMB's 10-Year  
Surplus



S.S. & Medicare Surplus

\* Includes interest costs  
 Note: Assumes 10-year estimates.  
 Source: Democratic Policy Committee based on the President's FY 2002 budget blueprint.